



Financial Performance of PGNiG Group 1st half 2012

August 23rd, 2012

Financial highlights

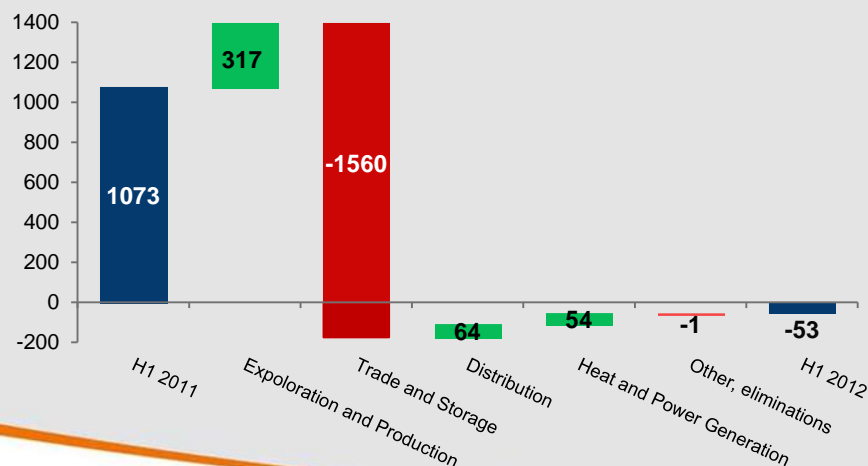
PGNiG Group (PLN m)	1H 2011	1H 2012	change	2Q 2011	2Q 2012	change
Sales revenue	11 523	14 764	3 241	4 478	5 818	1 340
Operating expenses	(10 451)	(14 817)	(4 366)	(4 585)	(6 170)	(1 585)
EBITDA	1 850	951	(899)	281	196	(85)
EBIT	1 073	(53)	(1 126)	(106)	(353)	(247)
Result on financial activity	168	(127)	(295)	104	(156)	(260)
Net result	1 005	(17)	(1 022)	(20)	(314)	(294)
Hi-methane gas sales margin	(1%)	(11%)	(10 pp)	(4%)	(13%)	(9 pp)

- Despite a **28% revenue increase in H1 2012**, the Group's **EBITDA declined 49%**, or PLN 0.9bn, following a **10 pp** drop of the margin on sales of high-methane gas. Operating profit fell by PLN 1.1bn.
- The significant increase in operating expenses and the negative margin on sales of high-methane gas was due to a **46% increase in the purchase price of imported gas**. In H1 2012, **cost of gas sold grew by over PLN 3bn**, or 48%, on H1 2011. The operating loss recorded in H1 2012 demonstrates that **changes in the gas tariff were insufficient to fully accommodate for the market trends**.
- The H1 2012 results reflect the consolidation of PGNiG Termika (former Vattenfall Heat Poland).
- The decline of the result on financing activities in H1 and Q2 2012 was attributable to a **PLN 113m** rise in borrowing costs and a **PLN 146m drop** in net foreign exchange gains/(losses).
- The positive difference between EBIT and net profit, despite the loss on financing activities, was attributable to a **PLN 157m decrease** in current income tax expense (due to the loss on gas sales) and a higher deferred tax asset, which included an increase of PLN 112m due to tax loss and an increase of PLN 68m due to an investment tax relief obtained in Norway. As a result, **income tax amounted to PLN +77m in H1 2012** versus PLN -235m a year before.

Segments – 1st half 2012

Operating result (PLN m)	1H 2011	1H 2012	change
Exploration and Production	453	770	70%
Trade and Storage	124	(1 436)	(1258%)
Distribution	502	566	13%
Heat and Power Generation	-	54	-
Excluding amortisation charge on CO ₂	-	166	-
Other, eliminations	(6)	(7)	(17%)
TOTAL	1 073	(53)	(105%)

Segments' influence on the operating result in 1H 2012 (PLN m)

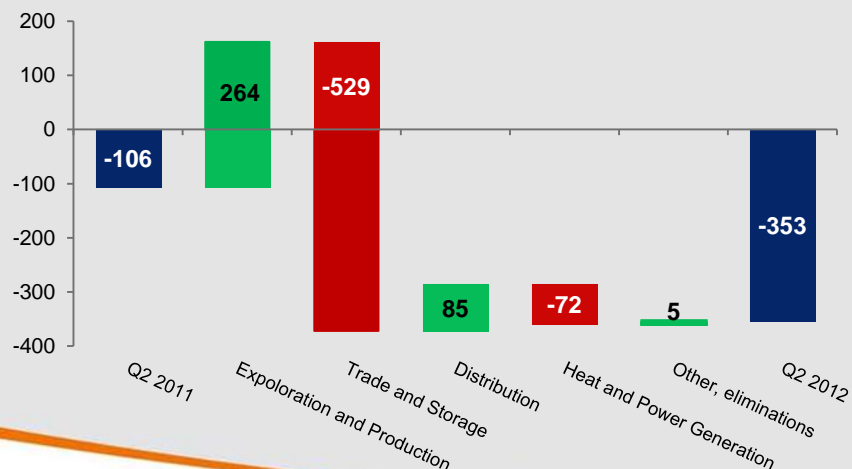


- The main negative contributor to the Group's operating result in H1 2012 was a **PLN 1.4bn loss** reported by the Trade and Storage segment, which reduced EBIT by nearly PLN 1.6bn relative to H1 2011. The drop was mainly attributable to the **negative margin on sales** of the main product, i.e. natural gas.
- This negative effect was only slightly offset by an **improvement in the Exploration and Production segment's EBIT which grew by as much as 70%**, and the first-time consolidation of the Generation segment.
- The operating result of the Exploration and Production segment **improved by PLN 317m** on the back of higher crude oil prices which translated into higher revenue from sales of crude oil and helium.
- The result of the Distribution segment **grew 13%**, i.e. PLN 64m, driven primarily by a 1.7% increase in the distribution tariff in July 2011 and a 2% growth of the volume of distributed gas.
- The Generation segment (heat and electricity production by PGNiG Termika) posted an operating profit of **PLN 54m** in H1 2012. The segment's operating result was driven by a PLN 112m amortisation charge made on the assets recognised as at the date of acquisition of VHP, including CO₂ emission allowances valued at PLN 194m. The figures are not final as the process of accounting for the PGNiG Termika acquisition is continued.

Segments – 2Q 2012

Operating result (PLN m)	2Q 2011	2Q 2012	change
Exploration and Production	76	340	347%
Trade and Storage	(129)	(658)	410%
Distribution	(47)	38	181%
Heat and Power Generation	-	(72)	-
Excluding amortisation charge on CO ₂	-	28	-
Other, eliminations	(6)	(1)	83%
TOTAL	(106)	(353)	(233%)

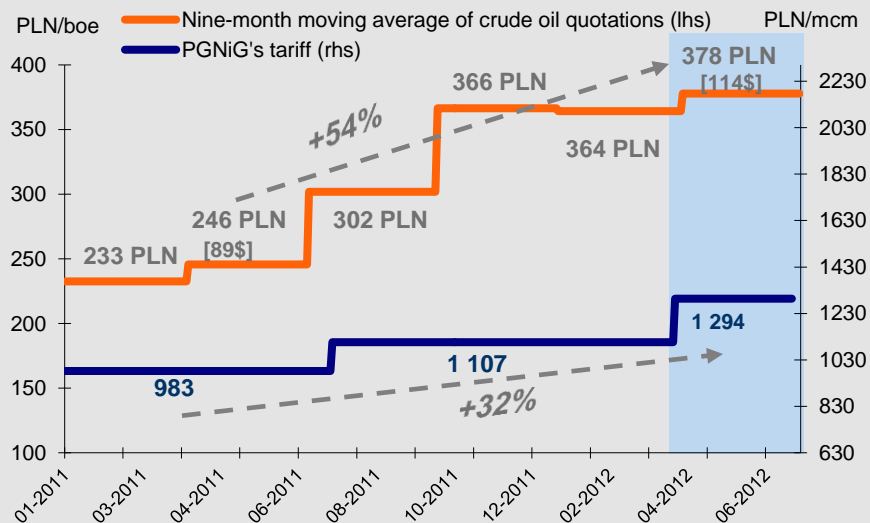
Segments' influence on the operating result in 2Q 2012 (PLN m)



- The Exploration and Production segment's result was positively affected by growing prices of crude oil; the crude production volume in Q2 2012 **grew 13%** on the back of a shorter stoppage at the Dębno facility. Comparing to Q2 2011, the segment's result was also significantly affected by a PLN 170m change in impairment losses, mainly on production assets, resulting from higher forecast prices of hydrocarbons.
- Despite the higher gas tariffs, which grew 13% in July 2011 and 17% as of March 31st 2012, **the Trade and Storage segment's loss continued to grow**. This was due to a **54% increase** in the nine-month average crude oil price in the złoty terms, which resulted in a negative margin on sales of high-methane gas. The margin **fell 9 pp** relative to Q2 2011 and 2 pp relative Q1 2012.
- The operating result of the Distribution segment **grew by PLN 85m**, following a 1.7% increase in the distribution rates as of July 2011 and a 2% growth in the volume of gas distributed during the quarter.
- The Generation segment, a recent addition to the Group, contributed negatively to the Q2 2012 operating result, due to the **amortisation charge made on the assets recognised upon acquisition of VHP**.

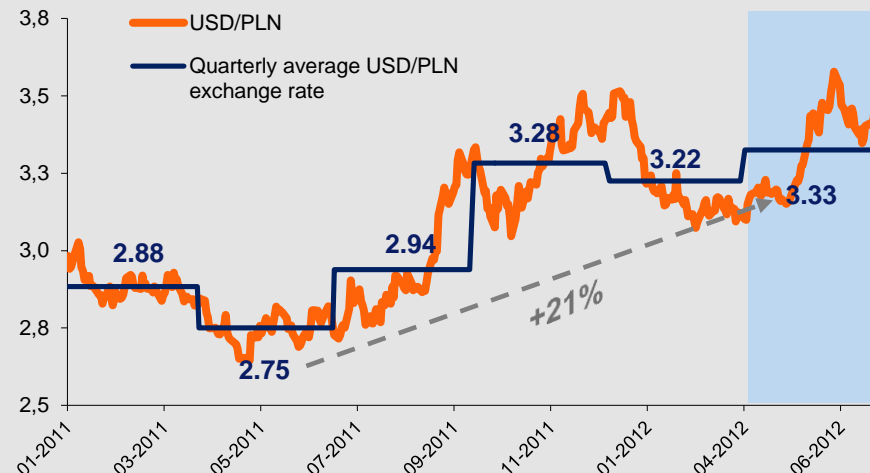
Financial performance drivers

Crude oil quoted prices* vs. tariff price



- Crude oil prices determine the purchase price of imported gas. The pricing formula is based on a nine-month average of petroleum product prices, which are almost perfectly correlated with crude prices.
- The prices of crude oil remain high. In Q2 2012, the nine-month average was 114 USD/boe, up **27%** on Q2 2011.
- In the same period, the nine-month average crude oil price grew by **54%** in the zloty terms. It was not fully reflected in the gas tariff, which increased by 32%, up to **1,294 PLN /thousand cubic metres**.

USD/PLN exchange rate**



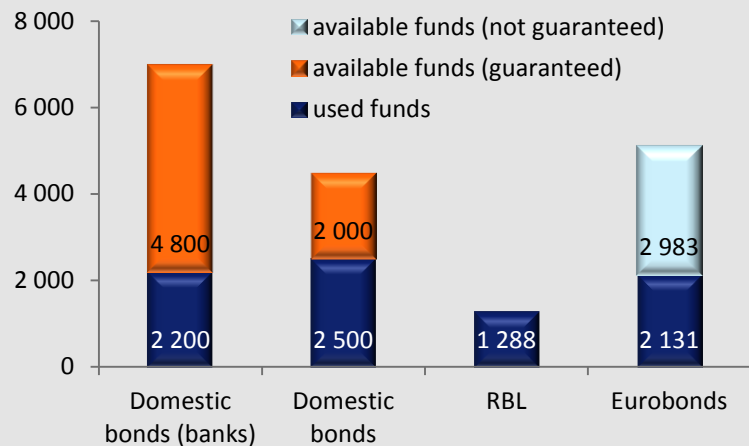
- The price of imported gas, similarly to crude prices, is denominated chiefly in the US dollars, which determines the value of the largest item in the Group's expenses and a portion of revenue generated by the Exploration and Production segment.
- In Q2 2012, the average USD/PLN exchange rate was 3.33, up almost **21%** on Q2 2011 (2.75), and **3%** on Q1 2012 (3.22).
- In the zloty terms the nine-month average price of petroleum products in Q2 2012 was **378 PLN/boe**.

* European Dated Brent Forties Oseberg (BFO), source : Bloomberg.

** Source: National Bank of Poland (NBP).

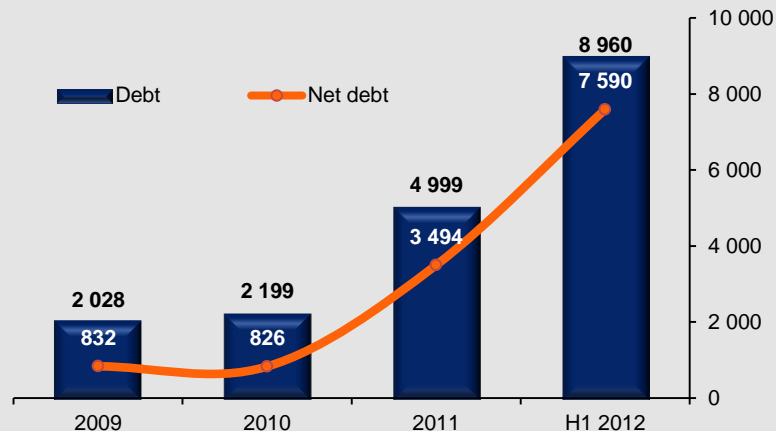
Financial indebttness

Use of debt under the financing programmes as at June 30th 2012 (PLN m)



- Value of the domestic notes issue programme underwritten by banks – **PLN 7bn**; the notes' maturity is July 31st 2015.
- Five-year domestic notes issue programme of up to **PLN 4.5bn**, not underwritten, with maturities of up to ten years. The first issue of PLN 2.5bn was placed in June 2012.
- Reserve Based Loan (PGNiG Norway) – up to **USD 380m****.

PGNiG Group's debt (PLN m)



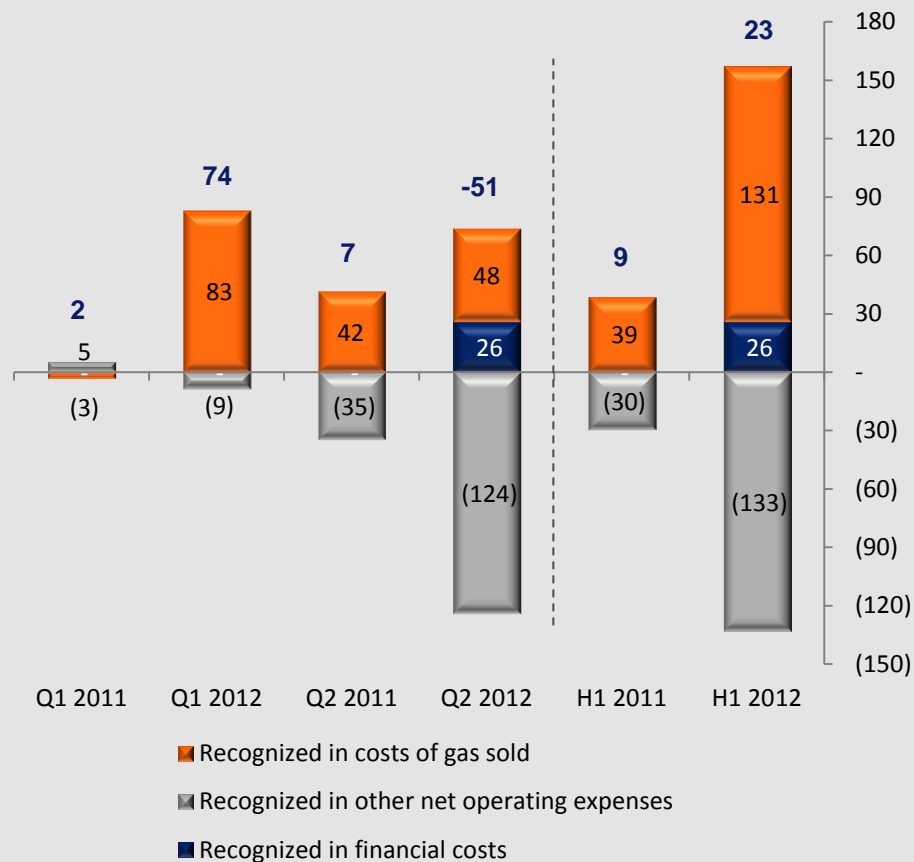
- Five-year programme for the issue of **EUR 1.2bn** 10-year eurobonds. The first issue of EUR 500m bonds, with a **4%** coupon, was placed in February 2012.
- The **PLN 4bn increase in debt over the end of 2011, to PLN 9bn**, was caused by the higher requirement for external financing to fund gas trading operations and the acquisition of PGNiG Termika.

* According to National Bank's of Poland exchange rates as of June 29th, 2012 for EUR (eurobonds) and USD (Reserve Based Loan).

** As of Q2 2012, the Reserve Based Loan is being repaid as per the agreed repayment schedule.

Market risk hedging policy

Result on derivative instruments* (PLN m)



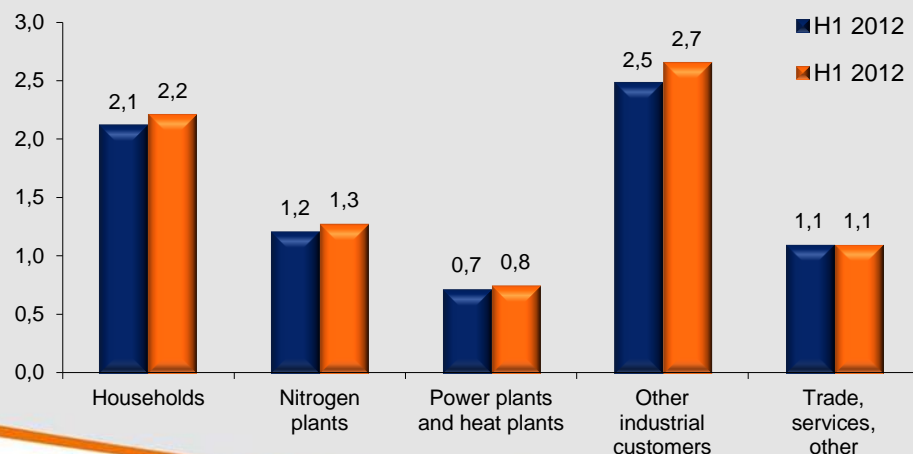
- In H1 2012, net result on valuation of derivative instruments recognised in profit or loss was **PLN 23m**, including unrealised gain of **PLN 91m** and realised loss of **PLN -68m**.
- The realised gain on valuation of the effective portion of derivative instruments, transferred to equity as at June 30th 2012, was **PLN 55m**.
- Assets on derivative instruments as at June 30th 2012 totalled **PLN 198m**, compared with nearly PLN 285m as at December 31st 2011.
- Hedging transactions executed by the Group:
 - purchase of a European call option
 - zero-cost collar option strategies (risk reversal)
 - forward contracts
 - cross-currency interest rate swap
 - risk reversal zero-cost collar option strategies (Asian options)
 - purchase of Asian commodity call options

* Without foreign exchange gains/losses and valuation recognized in capital reserves

Natural gas (I)

PGNiG Group*	1H 2011	1H 2012	change	2Q 2011	2Q 2012	change
Production volume (million m ³)	2 126	2 163	2%	996	1 026	3%
Import volume (million m ³)	5 876	5 761	(2%)	2 743	2 762	1%
Sales volume (million m ³)	7 549	7 976	6%	2 795	2 931	5%
<i>Including sales to customers outside of Poland</i>	-	76	-	-	48	-
Distribution volume (million m ³)	5 219	5 337	2%	1 696	1 730	2%
Gas sales revenue (PLN m)	10 298	12 250	19%	3 882	4 824	24%
High-methane gas (E)	9 671	11 535	19%	3 657	4 544	24%
Nitrogen-rich gas (Ls, Lw)	628	715	14%	225	280	24%

Customers' share in gas sales volume (bcm)

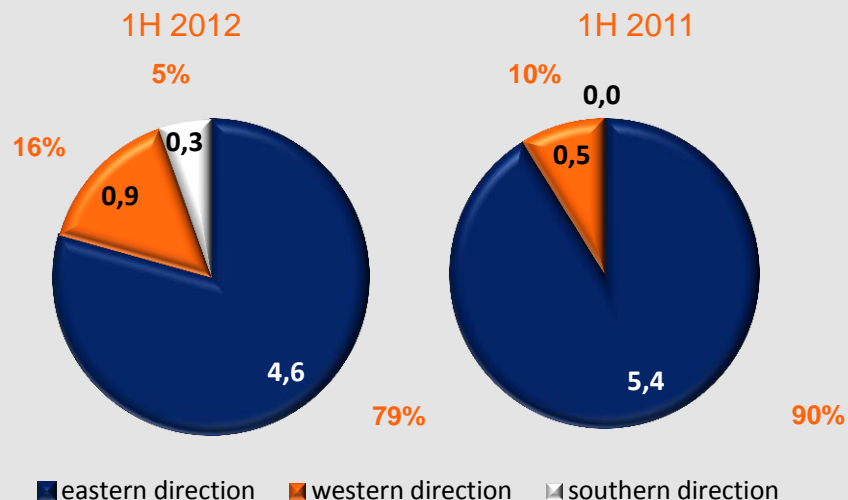


- In H1 2012 **the volume of gas sales was up 5%**, mainly due to record-high sales in Q1 2012 attributable to low average air temperatures in February.
- The **volume of gas sold to other industrial customers increased by 7%, to 2.7bn cubic metres**. The demand from other customer was up **4-5%**, with 1.3bn cubic metres of gas sold to nitrogen processing plants.
- The **2%** rise in the volume of gas distributed in H1 2012 was attributable mainly to the low air temperatures in February.

* Measured as high-methane gas equivalent (E).

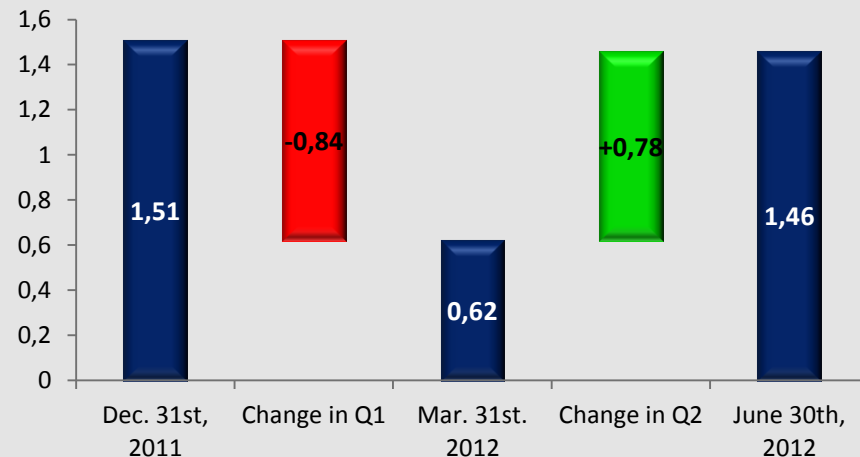
Natural gas(II)

Gas imports (bln m³)



- To optimise the cost of gas purchases in H1 2012, **1.2bn cubic metres of gas** was acquired on markets west and south of Poland by using the expanded interconnector in Lasów, the virtual reverse flow service at the Yamal pipeline, and the Moravia interconnector. To compare, in H1 2011 the volume of gas acquired in this way was 500m cubic metres, i.e. almost **700m cubic metres** less.

Gas in storage (bln m³)

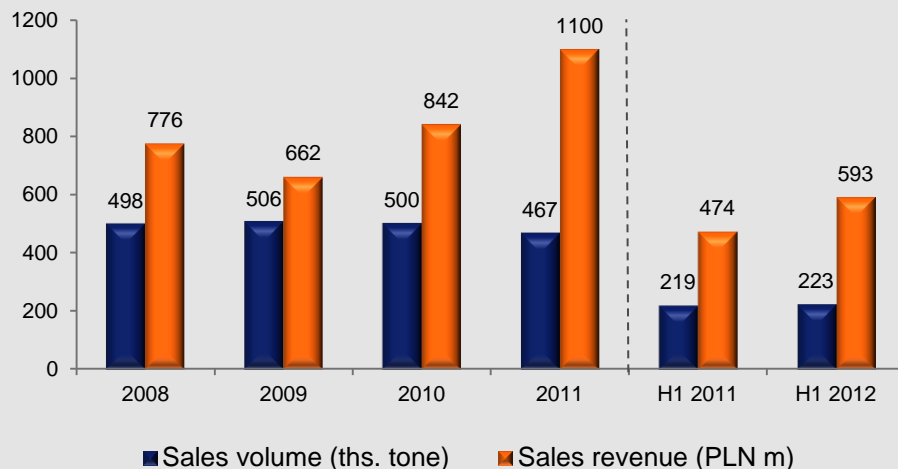


- As the underground gas storage facilities were filled to capacity before the 2011/12 winter season, the volume stored as at the end of December 2011 was **1.51bn cubic metres** and over **800m cubic metres** of gas could be withdrawn in the first three months of 2012. Following the injection of nearly **800m cubic metres** of gas in Q2 2012, the volume of gas stored as at the end of June 2012 was **1.46bn cubic metres**.

Crude oil

PGNiG Group*	1H 2011	1H 2012	change	2Q 2011	2Q 2012	change
Production volume (ths. t)	218	223	3%	84	96	13%
Sales volume (ths. t)	219	223	2%	89	96	7%
Sales revenue (PLN m)	474	593	25%	203	250	24%
Oil unit price (PLN/t)	2 168	2 662	23%	2 263	2 608	15%
Average price of Brent Dated oil for the period (USD/bbl)	111	113	2%	117	108	(8%)

Oil sales volume and revenues*

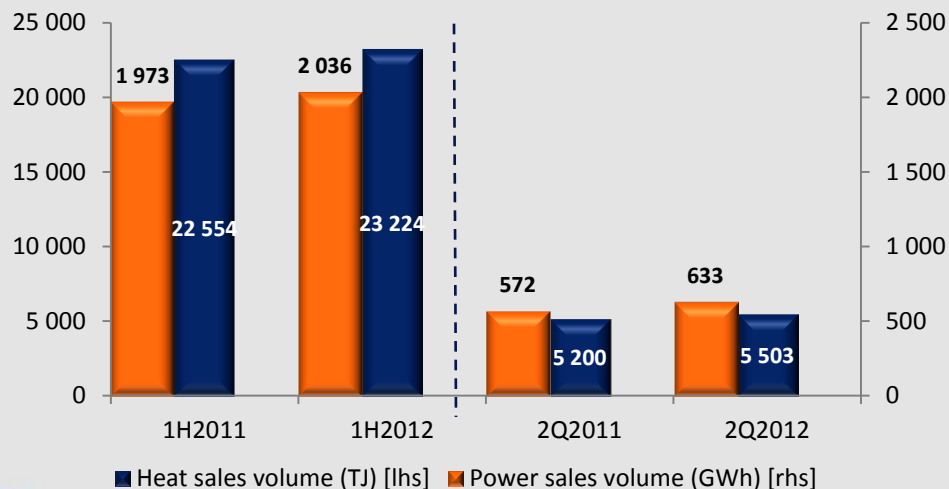


- In May and June 2011, production of crude oil at the Dębno facility was reduced due to the Gorzów CHP plant's limited ability to receive gas. In the same period of 2012, the facility produced crude at planned capacities.
- The increase in revenue from sales of crude oil in H1 2012 was primarily attributable to the higher USD/PLN exchange rate, which **pushed the price of crude up by 23%** in the zloty terms. In the dollar terms, the price rose only 2%, while in Q2 2012 alone it fell 8%.
- Crude oil production from domestic fields in 2012 is forecast to reach **480 thousand tonnes**, and in 2013 – **750 thousand tonnes**.

Heat and power – PGNiG Termika

	1H 2011 VHP	1H 2012 PGNiG Termika	change	2Q 2011 VHP	2Q 2012 PGNiG Termika	change
Heat sales volume (TJ)	22,554	23,224	3%	5,200	5,503	6%
Heat sales revenue (PLN m)	487	527	8%	139	151	9%
Power sales volume (GWh)	1,973	2,036	3%	572	633	11%
Power sales revenue* (PLN m)	577	568	(1%)	162	172	6%
<i>Including certificates of origin for electricity</i>	188	132	(30%)	44	44	-

Heat and electricity sales volumes

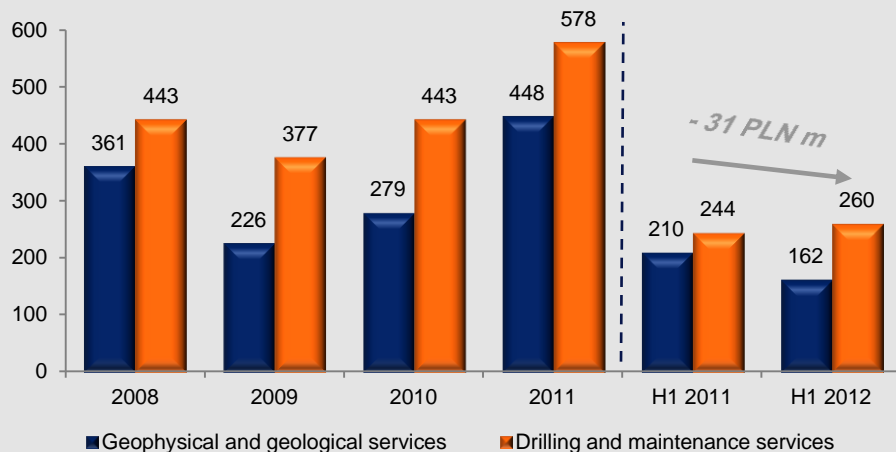


- The heat and electricity sales volumes rose on the back of lower air temperatures in Q1 2012, higher availability of the Siekierki CHP plant compared with Q1 2011, and a higher share of biomass in the burned fuel, which yielded higher volume of green certificates.
- Another factor contributing to the higher revenue from sales of heat was an increase in the tariff price of heating July 2011.
- In H1 2012, revenue from sales of electricity and certificates fell slightly, mainly on lower sales of certificates. Revenue from sales of electricity alone gained 12% in the period.

Other sales

Sales revenue PGNiG Group (PLN m)	1H 2011	1H 2012	change	2Q 2011	2Q 2012	change
Helium	26	66	152%	13	34	164%
Propane-butane gas (LPG)	24	31	27%	9	13	49%
LNG	15	24	57%	6	11	70%
Exploration services, herein:	454	422	(7%)	243	185	(24%)
Geophysical and geological services	210	162	(23%)	109	53	(51%)
Drilling and maintenance services	244	260	7%	134	132	(1%)

Revenues from exploration services (PLN m)



- The decline in revenue from geophysical and geological services was mainly due to **the weaker demand for these services in Poland**.
- The **152%** increase in revenue from helium sales over H1 2011 follows from a 2% increase in helium output and from its higher unit selling price, which is correlated with petroleum product prices.
- LPG production and sales volumes grew sharply in H1 2012, by **17% and 25%, respectively**. There was an even stronger growth of LNG production and sales volumes – in both cases by **30%**.

Operating expenses

PGNiG Group (PLN m)	1H 2011	1H 2012	change	2Q 2011	2Q 2012	change
Total operating expenses	10,451	14,817	42%	4,585	6,170	35%
Cost of gas sold	6,562	9,688	48%	2,407	3,802	58%
Other raw materials and consumables used	328	382	16%	170	190	12%
Fuel for heat and power generation	-	563	-	-	151	-
Employee benefits	1,380	1,365	(1%)	783	671	(14%)
Depreciation and amortisation	777	1,004	29%	387	549	42%
OGP GAZ-SYSTEM transmission services	765	752	(2%)	350	334	(5%)
Cost of written-off dry wells	140	61	(56%)	53	2	(96%)
Other contracted services	663	674	2%	346	350	1%
Other operating expenses net	317	690	118%	305	332	9%
Cost of products and services for own needs	(481)	(362)	(25%)	(217)	(211)	(3%)

- Cost of gas sold is the largest item affecting operating expenses. In H1 2012, the cost grew **PLN 3.1bn**, due to a 54% increase in the nine-month average price of petroleum products in the złoty terms. The Company managed to partly contain the growth of cost of imported gas by **increasing the volumes of gas sourced from countries west and south of Poland (by 700m cubic metres)**.
- The lower costs of transmission services were attributable to the reduction of the tariff as of August 2011, which resulted in an **over 7% decline** in the unit cost of gas transmission services.
- Other net operating expenses were on the rise in H1 2012, mainly on the back of foreign exchange losses (**PLN 150m**), negative net valuation of hedging instruments (**PLN 103m**), and consolidation of PGNiG Termika (**PLN 70m**). The item also comprises the first on record impairment loss recognised on natural gas stocks (PLN 66m).
- In H1 2012, the operating expenses were affected by the first-time consolidation of **PGNiG Termika**, including also PLN 51m in costs of other materials and PLN 230m in depreciation and amortisation charges (i.e. the entire growth of this item at the Group between the periods).

Summary

FURTHER DECLINE OF NEGATIVE MARGIN ON GAS SALES

Higher crude oil prices and appreciation of the US dollar against the zloty seen since July 2011 led to a considerable increase in PGNiG's cost of gas purchases, which was not reflected in the gas tariff applicable in the first quarter of 2012 and **raised the cost of imported gas purchases by 46%**.

The increase in the tariff price of gaseous fuel on average by 17% starting from March 31st 2012 failed to fully accommodate for the gas acquisition costs in Q2 2012, mainly due to the strong depreciation of the zloty in May and June 2012. This yielded a **negative margin on gas sales, which in Q2 2012 fell to -13%**, the lowest level since Q4 2008, and required the Company to recognise the first on record **impairment losses on natural gas stocks** (PLN -66m).

OPERATING EXPENSES UNDER CONTROL

Net of the cost of gas purchases and the related result on foreign exchange differences and hedging transactions, and net of the cost increase caused by the first-time consolidation of PGNiG Termika, the PGNiG Group reduced its operating expenses. Year on year, in **H1 2012 the Group's operating expenses fell by 2%, and in Q2 2012 – by 14%**. This is attributable to the consistently pursued policy of optimising operating expenses; the policy helped to partly reduce the scale of the operating loss incurred in H1 2012.



Thank you for your attention